

CITY OF FRANKLIN, KENTUCKY

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2011

CITY OF FRANKLIN, KENTUCKY

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Year Ended June 30, 2011**

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INDEPENDENT AUDITORS' REPORT

The Honorable Mayor, Commissioners and City Manager
City of Franklin, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Franklin, Kentucky (City) as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2012, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 12, General Fund budgetary comparison schedule on pages 55 - 58, infrastructure condition and maintenance data on page 59, and schedules of funding progress and employer contributions on pages 60 - 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual funds statements and schedules on pages 62 - 72 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and proprietary funds budgetary comparison schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

January 13, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF FRANKLIN, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS Years Ended June 30, 2011 and 2010

As management of the City of Franklin (City) we offer readers of the City's financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2011. The information contained in this MD&A should be considered in conjunction with the information contained in the Accountants' Reports and Financial Statements and Supplementary information.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$31,299,696 and \$29,938,948 for the prior fiscal year.
- As of the close of the current fiscal year, the City's governmental activities reported ending net assets of \$14,540,339 which includes unrestricted net assets of \$1,372,333. Respectively for the prior fiscal year \$14,080,738 of net assets and \$1,145,279 of unrestricted net assets.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,568,938 with \$1,258,610 for the prior fiscal year.
- For the year ended June 30, 2011, total debt decreased by \$1,422,830 during the year due to principal reductions. For the prior fiscal year, total debt increased by \$4,563,056 due to issuance of new debt of \$12,395,669 offset by principal reductions of \$7,832,613.
- The City had total revenues of \$12,244,093 for the year ended June 30, 2011 which includes: program revenues (charges for service) of \$6,814,598, operating grants and contributions of \$471,769, capital grants and contributions of \$402,185 and general revenues of \$4,555,541. The City had total expenses of \$10,883,345 for the year ended June 30, 2011. Comparatively, the City had total revenues of \$11,450,364 for the year ended June 30, 2010 which includes: program revenues (charges for service) of \$6,699,696, operating grants and contributions of \$301,333, capital grants and contributions of \$196,567 and general revenues of \$4,252,768. The City had total expenses of \$10,867,493 for the year ended June 30, 2010.
- The City's total capital outlays were \$830,828 for the current fiscal year and \$803,468 for the prior fiscal year. For the Governmental Funds capital outlays were \$211,327 for the current fiscal year and \$161,272 for the prior fiscal year. For the Proprietary Funds capital outlays for the current fiscal year were \$619,501 and the prior fiscal year of \$642,196.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components:

- Government-wide financial statements.
- Fund financial statements.
- Notes to the financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, *e.g.*, depreciation and earned but unused vacation leave.

The government-wide financial statements are divided into two categories, governmental and business-type activities. The governmental activities of the City include general government, administrative services, financial services, police, fire, public works, community development and cemetery. The business-type activities of the City include water, wastewater, sewer collection and rehabilitation, sanitation and related support departments which comprise the Utility Fund. The City does not have any component units, *e.g.*, where the City has control over the income and expenses of the entity.

The government-wide financial statements can be found on pages 13 and 14 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources which have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds

Most of the City's basic services are included in the governmental fund type. These funds use the modified accrual accounting basis, which measures cash and all other financial assets that can readily be converted to cash. The general fund, special revenue funds and permanent funds are all governmental type funds.

Proprietary Funds

Proprietary funds, in general, charge customers for the services that are provided. These funds use a long-term financial accounting approach, full accrual basis and provide additional information in the statement of cash flows.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23 through 54 of this report.

Government-wide Analysis

The Governmental Accounting Standards Board (GASB) Statement 34 reporting model was implemented in fiscal year 2004.

As noted earlier, net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$31,299,696 for the current fiscal year and \$29,938,948 at the close of the prior fiscal year.

By far the largest portion of the City's net assets (76%) is its investment in capital assets, *e.g.*, land, buildings, machinery and equipment less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Only the unrestricted net assets of the City may be used to meet the government's ongoing obligations to citizens and creditors.

	2011 Net Assets		
	Governmental Activities	Business- type Activities	Total
Current and other assets	\$ 7,842,599	\$ 3,380,264	\$ 11,222,863
Capital assets	<u>13,658,760</u>	<u>21,152,608</u>	<u>34,811,368</u>
Total assets	<u>\$ 21,501,359</u>	<u>\$ 24,532,872</u>	<u>\$ 46,034,231</u>
Long-term liabilities outstanding	\$ 6,378,122	\$ 7,060,039	\$ 13,438,161
Other liabilities	<u>582,898</u>	<u>713,476</u>	<u>1,296,374</u>
Total liabilities	<u>\$ 6,961,020</u>	<u>\$ 7,773,515</u>	<u>\$ 14,734,535</u>
Net assets			
Invested in capital assets, net of related debt	\$ 12,303,743	\$ 14,827,449	\$ 27,131,192
Restricted	864,263	1,725,697	2,589,960
Unrestricted	<u>1,372,333</u>	<u>206,211</u>	<u>1,578,544</u>
Total net assets	<u>\$ 14,540,339</u>	<u>\$ 16,759,357</u>	<u>\$ 31,299,696</u>

	2010 Net Assets		
	Governmental Activities	Business- type Activities	Total
Current and other assets	\$ 7,824,565	\$ 3,110,911	\$ 10,935,476
Capital assets	<u>13,683,223</u>	<u>21,549,736</u>	<u>35,232,959</u>
Total assets	<u>\$ 21,507,788</u>	<u>\$ 24,660,647</u>	<u>\$ 46,168,435</u>
Long-term liabilities outstanding	\$ 6,669,338	\$ 8,107,048	\$ 14,776,386
Other liabilities	<u>757,712</u>	<u>695,389</u>	<u>1,453,101</u>
Total liabilities	<u>\$ 7,427,050</u>	<u>\$ 8,802,437</u>	<u>\$ 16,229,487</u>
Net assets			
Invested in capital assets, net of related debt	\$ 12,106,351	\$ 14,114,964	\$ 26,221,315
Restricted	829,108	1,920,343	2,749,451
Unrestricted	<u>1,145,279</u>	<u>(177,097)</u>	<u>968,182</u>
Total net assets	<u>\$ 14,080,738</u>	<u>\$ 15,858,210</u>	<u>\$ 29,938,948</u>

The City's revenues are largely comprised of charges for services through utility revenue, occupational payroll fees and insurance fees.

2011
Changes in Net Assets

	Governmental Activities	Business- type Activities	Total
Revenues			
Program revenues			
Charges for services	\$ 1,093,724	\$ 5,720,874	\$ 6,814,598
Operating grants and contributions	471,769	—	471,769
Capital grants and contributions	—	402,185	402,185
General revenues			
Property taxes	832,732	—	832,732
Occupational fees	1,857,165	—	1,857,165
Insurance premium fees	1,184,939	—	1,184,939
Franchise fees	96,332	—	96,332
Business license fees	297,422	—	297,422
Interest income	13,106	24,455	37,561
Miscellaneous income	<u>225,656</u>	<u>23,734</u>	<u>249,390</u>
Total revenues	<u>6,072,845</u>	<u>6,171,248</u>	<u>12,244,093</u>
Expenses			
General government	1,604,134	—	1,604,134
Public safety	2,209,324	—	2,209,324
Public works	994,741	—	994,741
Community and cultural	659,583	—	659,583
Interest expense on long-term debt	145,462	279,749	425,211
Water and wastewater	—	3,842,808	3,842,808
Sanitation	—	1,145,927	1,145,927
Fiber Optic	<u>—</u>	<u>1,617</u>	<u>1,617</u>
Total expenses	<u>5,613,244</u>	<u>5,270,101</u>	<u>10,883,345</u>
Increase (Decrease) in Net Assets	459,601	901,147	1,360,748
Net assets, beginning of year	<u>14,080,738</u>	<u>15,858,210</u>	<u>29,938,948</u>
Net assets – June 30, 2011	<u>\$ 14,540,339</u>	<u>\$ 16,759,357</u>	<u>\$ 31,299,696</u>

	2010		
	Changes in Net Assets		
	Governmental Activities	Business- type Activities	Total
Revenues			
Program revenues			
Charges for services	\$ 1,032,162	\$ 5,667,534	\$ 6,699,696
Operating grants and contributions	301,333	—	301,333
Capital grants and contributions	—	196,567	196,567
General revenues			
Property taxes	777,346	—	777,346
Occupational fees	1,855,376	—	1,855,376
Insurance premium fees	1,070,240	—	1,070,240
Franchise fees	96,593	—	96,593
Business license fees	290,086	—	290,086
Interest income	16,563	32,301	48,864
Miscellaneous income	60,469	46,352	106,821
Gain (loss) on sale of capital assets	<u>7,442</u>	<u>—</u>	<u>7,442</u>
Total revenues	<u>5,507,610</u>	<u>5,942,754</u>	<u>11,450,364</u>
Expenses			
General government	1,662,611	—	1,662,611
Public safety	2,172,922	—	2,172,922
Public works	1,061,653	—	1,061,653
Community and cultural	585,438	—	585,438
Interest expense on long-term debt	125,538	326,614	452,152
Water and wastewater	—	3,819,792	3,819,792
Sanitation	—	1,098,668	1,098,668
Fiber Optic	<u>—</u>	<u>14,254</u>	<u>14,254</u>
Total expenses	<u>5,608,162</u>	<u>5,259,328</u>	<u>10,867,490</u>
Increase (Decrease) in Net Assets	(100,552)	683,426	582,874
Net assets, beginning of year	<u>14,181,290</u>	<u>15,174,784</u>	<u>29,356,074</u>
Net assets – June 30, 2010	<u>\$ 14,080,738</u>	<u>\$ 15,858,210</u>	<u>\$ 29,938,948</u>

Financial Analysis of the Government's Funds

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, fund balance may serve as a useful measure of a government's net resources available for spending for program purposes at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported an ending fund balance of \$3,396,722 compared to \$6,612,481 for the prior fiscal year. The City's major sources of revenues are insurance premium fees, payroll occupational fees and property taxes. The funds balance primarily represents the accumulation of revenues in excess of expenditures not reimbursed by funding sources.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were approximately \$67,000 increase in revenue and \$545,000 increase in appropriations which can be briefly summarized as follows:

- Slight increase in all categories of revenue except Intergovernmental revenue which had a minor decrease.
- Increase in community services related to investment for economic development of approximately \$443,000 and increased appropriations to parks and recreation of \$30,000.

Total revenues for the year were higher than final budgetary estimates while expenses were lower than final budgetary estimates. There was a deficiency of revenues over expenditures primarily related to the investment in economic development. Funds utilized for this expenditure were provided by proceeds from notes and not operating revenues. Excluding this investment activity, there was an excess of revenues over expenditures. There was a decrease in fund balance for the year related to this economic development investment.

Proprietary Funds

Operating revenues of the City's proprietary funds increased .9% from the prior year to \$5,720,874. The City kept rates static for the year. Operating revenues from Water and Wastewater increased by .5% to \$4,586,081 while operating revenues from Sanitation services increased 2.9% to \$1,134,793. Total operating expenses increased 1.4% to \$4,971,862. Operating expenses for Water & Wastewater increased by .9% to \$3,824,318 while operating expenses for Sanitation services increased by 4.3% to \$1,145,927.

Capital Asset and Debt Administration

Capital Assets

As of June 30, 2011, the City's investment in capital assets net of related debt for its governmental and business-type activities was \$27,131,192 and \$26,221,315 as of June 30, 2010. This investment in capital assets includes land, buildings, improvements, machinery and equipment and streets.

Major capital asset purchases during the current fiscal year include the following:

- Equipment used by Street department \$44,228.
- Cruisers for the Police department \$144,661.
- Capital expenditure of \$123,748 for design and make ready costs of Fiber Optic network.
- Capital expenditures of \$504,673 for improvements and additions to the City's water and sewer system.

Major capital asset purchases during the prior fiscal year include the following:

- Equipment used by Street department \$41,420.
- Cruisers for the Police department \$114,290.
- Capital expenditure of \$128,028 for design work of Fiber Optic network and fiber optic cable.
- Capital expenditures of \$514,168 for improvements and additions to the City's water and sewer system.

Long-term Debt

The City had \$12,934,819 in revenue bonds and capital lease obligations outstanding as of June 30, 2011, which is a decrease of \$1,422,830 from the previous year. The City made principal payments of \$1,434,921. The previous year the City had \$14,357,649 in revenue bonds and capital lease obligations outstanding as of June 30, 2010, which is an increase of \$4,563,056 from the previous year. The City issued bonds and notes payable of \$12,395,669 during the previous year of which \$6,478,963 was used to refund revenue bonds and capital lease obligations. The City made principal payments of \$1,353,650 during fiscal 2010.

Financial Analysis of the City's Funds

As the City completed the year, its governmental funds reported a combined fund balance of \$3,396,772 excluding capital assets and long-term debt. Included in this year's total change in fund balance, however, is a decrease of \$3,258,029 in the City's General Fund of which \$3,433,804 was spent for economic development and \$186,810 is reserved for debt service. For the previous year, City's governmental funds reported a combined fund balance of \$6,612,481 excluding capital assets and long-term debt. Included in last year's total change in fund balance, however, was an increase of \$4,785,787 in the City's General Fund of which \$4,491,391 was reserved for economic development and \$184,208 was reserved for debt service.

Modified Approach to Infrastructure

The condition of the City's roads is determined using its Road Management and Inspection Program (RMIP). The road condition is rated from 1 to 100 (OCI), with 100 being new or recently paved.

It is the City's policy to assess the condition of the roads annually for cracks, potholes, misalignment, drainage condition and number of specific safety hazards. There were no roads severely deficient in condition at June 30, 2011.

The City has not changed the measurement scale used to assess and report the condition of its roads for the past 10 years.

The City's goal is to have all roads at 90-100 OCI rating.

When funds become available, the Public Works Department plans to upscale its software to a more recent version.

Eligible infrastructure assets are not depreciated, additions and improvements thereto are capitalized and all other outlays made for such assets are expensed in the period incurred only if requirements regarding asset management system and preservation at condition level are met.

Economic Factors and Next Year's Budgets and Rates

- The City has designed and begun bidding processes to construct a fiber optic loop for business and industry in Franklin and in the two industrial parks. The City was awarded a \$1,000,000 grant from the U.S. Department of Commerce, Economic Development Administration to aid in the costs of the construction. Total cost of construction is projected to be \$2,000,000. Contracts totaling \$712,268 have been awarded since June 30, 2011, for construction/purchase of fiber optic network infrastructure and equipment. Construction of the fiber optic loop is projected to be completed during calendar 2012.
- In November 2010, Tractor Supply Co announced that an 850,000 square foot distribution facility — which will be one of the biggest buildings in south central Kentucky — was under construction in the Sanders Interstate Industrial Park off Highway 100 on Raines Drive. The facility became operational in December 2011 employing 160 people. The large tract of land in the back of the industrial park will give Tractor Supply plenty of room to expand. In three years, Tractor Supply hopes to expand its building to 1 million square feet and increase its work force to 250.
- In October 2011, the packaging firm, Danafilms Inc., announced it will add a new product line and invest just over \$12 million in its Simpson County plant. The German-owned company will nearly double the size of its Franklin workforce, creating 25 new jobs as a result of the expansion.
- In September 2011, Premium Services LLC and Worldwide Technologies in Simpson County announced the two companies will add a total of 50 new jobs in Franklin. Premium Services chose Simpson County as the site of its new manufacturing facility, while Worldwide Technologies will expand its existing operations. The companies will invest a combined \$1.6 million in these projects.

- In September 2011, Hammond Transportation, a Kentucky-based trucking company, moved to Franklin employing 100 employees. Hammond Transportation, Inc. transferred area operations from Industrial Drive in Portland, Tennessee to an existing building off Kentucky 1008 in north Franklin.

Contacting the City's Financial Management

The financial report is designed to provide a general overview of the City's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 117 West Cedar Street, P. O. Box 2805, Franklin, KY 42135.

BASIC FINANCIAL STATEMENTS

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF NET ASSETS

June 30, 2011

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Cash and cash equivalents	\$ 973,317	\$ 888,866	\$ 1,862,183
Certificates of deposit	434,718	—	434,718
Receivables (net of allowance for uncollectibles):			
Accounts	6,915	560,060	566,975
Taxes	678,122	—	678,122
Notes	3,965,206	—	3,965,206
Intergovernmental	197,699	110,763	308,462
Interest	372	—	372
Internal balances	390,894	(390,894)	—
Inventory	—	30,219	30,219
Prepaid items	62,292	4,093	66,385
Restricted assets:			
Cash and cash equivalents	1,099,824	869,274	1,969,098
Certificates of deposit	—	1,242,438	1,242,438
Interest receivable	—	728	728
Capital assets, net of accumulated depreciation:			
Nondepreciable	11,322,880	361,862	11,684,742
Depreciable capital assets	2,335,880	20,231,217	22,567,097
Construction in progress	—	559,529	559,529
Debt issuance costs	33,240	64,717	97,957
	<u>\$ 21,501,359</u>	<u>\$ 24,532,872</u>	<u>\$ 46,034,231</u>
Total assets			
	<u>\$ 21,501,359</u>	<u>\$ 24,532,872</u>	<u>\$ 46,034,231</u>
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable	\$ 325,140	\$ 299,884	\$ 625,024
Other accrued liabilities	122,243	367,921	490,164
Accrued interest payable	45,783	20,146	65,929
Accrued vacation	89,732	25,525	115,257
Noncurrent liabilities:			
Customer deposits	—	462,662	462,662
OPEB liability	268	40,412	40,680
Due within one year	374,233	848,698	1,222,931
Due in more than one year	6,003,621	5,708,267	11,711,888
	<u>6,961,020</u>	<u>7,773,515</u>	<u>14,734,535</u>
Total liabilities			
	<u>6,961,020</u>	<u>7,773,515</u>	<u>14,734,535</u>
NET ASSETS			
Invested in capital assets, net of related debt	12,303,743	14,827,449	27,131,192
Restricted for:			
Highways and streets	110,391	—	110,391
Debt service and capital activity	186,810	1,725,697	1,912,507
Economic development	58,470	—	58,470
Perpetual care	473,248	—	473,248
Other purposes	35,344	—	35,344
Unrestricted	1,372,333	206,211	1,578,544
	<u>14,540,339</u>	<u>16,759,357</u>	<u>31,299,696</u>
Total net assets			
	<u>14,540,339</u>	<u>16,759,357</u>	<u>31,299,696</u>
Total liabilities and net assets	<u>\$ 21,501,359</u>	<u>\$ 24,532,872</u>	<u>\$ 46,034,231</u>

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2011

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and cash equivalents	\$ 784,385	\$ 188,931	\$ 973,316
Certificates of deposit	—	434,718	434,718
Receivables (net of allowance for uncollectibles):			
Accounts	5,216	1,700	6,916
Taxes	678,122	—	678,122
Notes	3,965,206	—	3,965,206
Intergovernmental	172,629	25,070	197,699
Interest	—	372	372
Due from other funds	427,284	50,993	478,277
Prepaid items	61,873	420	62,293
Restricted assets			
Cash and cash equivalents	<u>1,098,222</u>	<u>1,602</u>	<u>1,099,824</u>
Total assets	<u>\$ 7,192,937</u>	<u>\$ 703,806</u>	<u>\$ 7,896,743</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 321,278	\$ 3,862	\$ 325,140
Due to other funds	55,176	32,206	87,382
Accrued expenses	122,243	—	122,243
Deferred revenue	<u>3,965,206</u>	<u>—</u>	<u>3,965,206</u>
Total liabilities	<u>4,463,903</u>	<u>36,068</u>	<u>4,499,971</u>
Fund balances:			
Nonspendable:			
Prepaid items	61,873	420	62,293
Perpetual care	—	473,248	473,248
Assigned to:			
Economic development	876,068	—	876,068
Debt service	186,810	—	186,810
Retirement benefits	18,932	—	18,932
Drug enforcement	16,413	—	16,413
Other purposes	—	194,070	194,070
Unassigned	<u>1,568,938</u>	<u>—</u>	<u>1,568,938</u>
Total fund balances	<u>2,729,034</u>	<u>667,738</u>	<u>3,396,772</u>
Total liabilities and fund balances	<u>\$ 7,192,937</u>	<u>\$ 703,806</u>	<u>\$ 7,896,743</u>

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

**RECONCILIATION OF THE BALANCE SHEET OF
GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
June 30, 2011**

Total fund balances - governmental funds		\$ 3,396,772
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
		13,658,760
Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds:		
Bonds and notes payable	(\$ 6,377,855)	
Compensated absences	(89,732)	
Accrued interest on long-term obligations	(45,783)	
OPEB liability	(268)	(6,513,638)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.		
		3,965,205
Bond issuance costs are recognized as debt service expenditures when paid in the year of issuance in government funds but are capitalized in the Statement of Net Assets and amortized over the life of the bonds.		
		<u>33,240</u>
Net assets of governmental activities		<u>\$ 14,540,339</u>

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended June 30, 2011**

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues			
Taxes:			
Property	\$ 832,732	\$ —	\$ 832,732
Occupational	1,857,165	—	1,857,165
Insurance premium	1,184,939	—	1,184,939
Franchise	96,332	—	96,332
Business license	297,422	—	297,422
Intergovernmental	319,409	178,062	497,471
Charges for sales and services	—	69,820	69,820
Interfund charges	891,409	—	891,409
Fines and forfeitures	33,335	—	33,335
Contributions and donations	—	11,200	11,200
Investment income	4,231	8,875	13,106
Miscellaneous	<u>326,983</u>	<u>315</u>	<u>327,298</u>
Total revenues	<u>5,843,957</u>	<u>268,272</u>	<u>6,112,229</u>
Expenditures			
Current:			
General government	\$ 1,568,830	\$ —	\$ 1,568,830
Public safety	2,053,495	—	2,053,495
Public works	797,723	150,864	948,587
Community services	3,844,080	242,903	4,086,983
Capital outlay	200,241	11,085	211,326
Debt service:			
Principal	293,280	—	293,280
Interest	<u>165,437</u>	<u>—</u>	<u>165,437</u>
Total expenditures	<u>8,923,086</u>	<u>404,852</u>	<u>9,327,938</u>
Deficiency of revenues under expenditures	<u>(3,079,129)</u>	<u>(136,580)</u>	<u>(3,215,709)</u>
Other financing sources (uses):			
Transfers in	—	183,250	183,250
Transfers out	<u>(178,900)</u>	<u>(4,350)</u>	<u>(183,250)</u>
Total other financing sources (uses)	<u>(178,900)</u>	<u>178,900</u>	<u>—</u>
Net change in fund balances	<u>(3,258,029)</u>	42,320	<u>(3,215,709)</u>
Fund balances, beginning of year	<u>5,987,063</u>	<u>625,418</u>	<u>6,612,481</u>
Fund balances, end of year	<u>\$ 2,729,034</u>	<u>\$ 667,738</u>	<u>\$ 3,396,772</u>

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2011**

	<u>Total Governmental Funds</u>
Net change in fund balances - total governmental funds	(\$ 3,215,709)
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.</p>	(24,464)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>	288,981
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:</p>	
Compensated absences	(\$ 7,632)
OPEB expense	(268)
Accrued interest on long-term debt	(<u>26,663</u>)
	(34,563)
<p>Principal collections on notes receivable are included in governmental funds. Principal collections reduce long-term notes receivable in the government-wide statement of net assets.</p>	(39,385)
<p>Certain construction expenditures incurred on behalf of local industrial authority are reported as expenditures in governmental funds; however, in the statement of activities, expenses are not recognized because such amounts are recorded as note receivable from industrial authority.</p>	<u>3,484,741</u>
Change in net assets of governmental activities	<u>\$ 459,601</u>

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS
June 30, 2011

	Enterprise Funds			
	Water and Wastewater	Sanitation	Fiber Optic	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 569,845	\$ 319,021	\$ —	\$ 888,866
Accounts receivable, net	483,222	76,838	—	560,060
Intergovernmental receivables	22,064	—	88,699	110,763
Due from other funds	—	33,715	—	33,715
Inventory	30,219	—	—	30,219
Prepaid items	3,471	622	—	4,093
Restricted assets:				
Cash and cash equivalents	869,274	—	—	869,274
Certificates of deposit	1,242,438	—	—	1,242,438
Interest receivable	<u>728</u>	<u>—</u>	<u>—</u>	<u>728</u>
Total current assets	<u>3,221,261</u>	<u>430,196</u>	<u>88,699</u>	<u>3,740,156</u>
Noncurrent assets:				
Capital assets:				
Land	320,548	40,114	1,200	361,862
Depreciable capital assets, net	20,231,217	—	—	20,231,217
Construction in progress	<u>203,667</u>	<u>—</u>	<u>355,862</u>	<u>559,529</u>
Net capital assets	20,755,432	40,114	357,062	21,152,608
Debt issue costs	<u>64,717</u>	<u>—</u>	<u>—</u>	<u>64,717</u>
Total noncurrent assets	<u>20,820,149</u>	<u>40,114</u>	<u>357,062</u>	<u>21,217,325</u>
Total assets	<u>\$ 24,041,410</u>	<u>\$ 470,310</u>	<u>\$ 445,761</u>	<u>\$ 24,957,481</u>

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS

June 30, 2011

	Enterprise Funds			
	Water and Wastewater	Sanitation	Fiber Optic	Total
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 170,266	\$ 92,741	\$ 36,877	\$ 299,884
Accrued liabilities	50,503	317,418	—	367,921
Accrued interest	20,146	—	—	20,146
Accrued vacation	25,525	—	—	25,525
Due to other funds	65,641	—	358,968	424,609
Current maturities of notes payable	163,698	—	—	163,698
Payable from restricted assets:				
Current maturities of revenue bonds payable	685,000	—	—	685,000
Customer deposits	<u>462,662</u>	<u>—</u>	<u>—</u>	<u>462,662</u>
Total current liabilities	<u>1,643,441</u>	<u>410,159</u>	<u>395,845</u>	<u>2,449,445</u>
Noncurrent liabilities:				
OPEB liability	25,839	14,573	—	40,412
Notes payable	775,804	—	—	775,804
Revenue bonds payable	<u>4,932,463</u>	<u>—</u>	<u>—</u>	<u>4,932,463</u>
Total noncurrent liabilities	<u>5,734,106</u>	<u>14,573</u>	<u>—</u>	<u>5,748,679</u>
Total liabilities	<u>7,377,547</u>	<u>424,732</u>	<u>395,845</u>	<u>8,198,124</u>
NET ASSETS				
Invested in capital assets, net of related debt	14,430,273	40,114	357,062	14,827,449
Restricted for debt service and capital activity	1,636,998	—	88,699	1,725,697
Unrestricted	<u>596,592</u>	<u>5,464</u>	<u>(395,845)</u>	<u>206,211</u>
Total net assets	<u>16,663,863</u>	<u>45,578</u>	<u>49,916</u>	<u>16,759,357</u>
Total liabilities and net assets	<u>\$ 24,041,410</u>	<u>\$ 470,310</u>	<u>\$ 445,761</u>	<u>\$ 24,957,481</u>

CITY OF FRANKLIN, KENTUCKY

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS - PROPRIETARY FUNDS
Year Ended June 30, 2011**

	Enterprise Funds			
	Water and Wastewater	Sanitation	Fiber Optic	Total
Operating revenues				
Charges for services	\$ 4,478,956	\$ 1,106,954	\$ —	\$ 5,585,910
Fines and forfeitures	<u>107,125</u>	<u>27,839</u>	<u>—</u>	<u>134,964</u>
Total operating revenues	<u>4,586,081</u>	<u>1,134,793</u>	<u>—</u>	<u>5,720,874</u>
Operating expenses				
Salaries, wages and benefits	1,184,962	25,547	—	1,210,509
Maintenance	244,891	937,880	1,321	1,184,092
Utilities	287,967	—	—	287,967
Administrative	548,409	182,500	—	730,909
Supplies	510,481	—	296	510,777
Other	22,056	—	—	22,056
Depreciation	<u>1,025,552</u>	<u>—</u>	<u>—</u>	<u>1,025,552</u>
Total operating expenses	<u>3,824,318</u>	<u>1,145,927</u>	<u>1,617</u>	<u>4,971,862</u>
Operating income (loss)	<u>761,763</u>	(<u>11,134</u>)	(<u>1,617</u>)	<u>749,012</u>
Nonoperating revenues (expenses):				
Investment income	23,718	737	—	24,455
Intergovernmental revenue	390,903	—	11,282	402,185
Miscellaneous revenue	23,734	—	—	23,734
Interest expense	(277,240)	—	—	(277,240)
Amortization expense	(18,489)	—	—	(18,489)
Administrative fees	<u>(2,510)</u>	<u>—</u>	<u>—</u>	<u>(2,510)</u>
Total nonoperating revenues (expenses)	<u>140,116</u>	<u>737</u>	<u>11,282</u>	<u>152,135</u>
Change in net assets	901,879	(10,397)	9,665	901,147
Net assets, beginning of year	<u>15,761,984</u>	<u>55,975</u>	<u>40,251</u>	<u>15,858,210</u>
Net assets, end of year	<u>\$ 16,663,863</u>	<u>\$ 45,578</u>	<u>\$ 49,916</u>	<u>\$ 16,759,357</u>

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
Year Ended June 30, 2011**

	Enterprise Funds			
	Water and Wastewater	Sanitation	Fiber Optic	Total
Cash flows from operating activities				
Cash received from customers	\$ 4,732,374	\$ 1,092,015	\$ —	\$ 5,824,389
Cash payments to employees and retirees	(1,162,980)	(10,974)	—	(1,173,954)
Cash payments to suppliers	(1,342,035)	(675,281)	(1,617)	(2,018,933)
Payments for administrative overhead	(548,409)	(182,500)	—	(730,909)
Net cash provided by (used in) operating activities	<u>1,678,950</u>	<u>223,260</u>	<u>(1,617)</u>	<u>1,900,593</u>
Cash flows from noncapital financing activities				
Borrowings from other funds	<u>—</u>	<u>—</u>	<u>88,865</u>	<u>88,865</u>
Net cash provided by noncapital financing activities	<u>—</u>	<u>—</u>	<u>88,865</u>	<u>88,865</u>
Cash flows from capital and related financing activities				
Proceeds from capital grants	375,133	—	—	375,133
Purchase of capital assets	(504,676)	—	(87,248)	(591,924)
Principal paid on bonds, notes and lease obligations	(1,141,641)	—	—	(1,141,641)
Interest paid on bonds, notes and lease obligations	(280,223)	—	—	(280,223)
Administrative fees paid	(2,510)	—	—	(2,510)
Net cash used in capital and related financing activities	<u>(1,553,917)</u>	<u>—</u>	<u>(87,248)</u>	<u>(1,641,165)</u>
Cash flows from investing activities				
Proceeds from sale and maturities of certificates of deposit	88,011	—	—	88,011
Interest received	<u>24,153</u>	<u>737</u>	<u>—</u>	<u>24,890</u>
Net cash provided by investing activities	<u>112,164</u>	<u>737</u>	<u>—</u>	<u>112,901</u>
Net increase in cash and cash equivalents	237,197	223,997	—	461,194
Cash and cash equivalents, beginning of year	<u>1,201,922</u>	<u>95,024</u>	<u>—</u>	<u>1,296,946</u>
Cash and cash equivalents, end of year	<u>\$ 1,439,119</u>	<u>\$ 319,021</u>	<u>\$ —</u>	<u>\$ 1,758,140</u>
Reflected in the Statement of Fund Net Assets - Proprietary Funds as:				
Cash and cash equivalents	\$ 569,845	\$ 319,021	\$ —	\$ 888,866
Restricted cash and cash equivalents	<u>869,274</u>	<u>—</u>	<u>—</u>	<u>869,274</u>
Total	<u>\$ 1,439,119</u>	<u>\$ 319,021</u>	<u>\$ —</u>	<u>\$ 1,758,140</u>

See Notes to Financial Statements

(Continued)

CITY OF FRANKLIN, KENTUCKY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)
Year Ended June 30, 2011

	Enterprise Funds			
	Water and Wastewater	Sanitation	Fiber Optic	Total
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ 761,763	(\$ 11,134)	(\$ 1,617)	\$ 749,012
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation	1,025,552	—	—	1,025,552
Nonoperating revenues	23,734	—	—	23,734
Change in assets and liabilities:				
(Increase) decrease in accounts receivable	78,634	(42,778)	—	35,856
Decrease in due from other funds	—	267,506	—	267,506
(Increase) decrease in inventory and prepaid items	14,177	(15)	—	14,162
Decrease in accounts payable	(6,681)	(1,166)	—	(7,847)
Increase (decrease) in accrued liabilities	2,252	(3,726)	—	(1,474)
Decrease in accrued vacation	(6,109)	—	—	(6,109)
Increase in customer deposits	43,925	—	—	43,925
Decrease in due to other funds	(284,136)	—	—	(284,136)
Increase in OPEB liability	<u>25,839</u>	<u>14,573</u>	<u>—</u>	<u>40,412</u>
Net cash provided by (used in) operating activities	<u>\$ 1,678,950</u>	<u>\$ 223,260</u>	<u>(\$ 1,617)</u>	<u>\$ 1,900,593</u>

See Notes to Financial Statements

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Franklin, Kentucky (City) is a municipal corporation and political subdivision of the Commonwealth of Kentucky. The City operates under a Commission-Manager form of government. The City provides a full range of municipal services including general government services, police and fire protection, public works, parks and recreation, and cemetery operations. In addition, the City owns and operates a water and sewer system.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's reporting entity applies all relevant (GASB) pronouncements.

Business-type activities and proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The more significant of the City's accounting policies are described below.

A. Reporting Entity

The accompanying government-wide financial statements present the financial statements of the City. There are no component units, legally separate entities for which the City is considered to be financially accountable. Accountability is defined as the City's substantive appointment of the majority of the component unit's governing board. Furthermore, to be financially accountable, the City must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to or impose specific financial burdens on the City.

Related Organizations and Jointly Governed Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Electric Plant Board and the Housing Authority of Franklin are considered related organizations of the City.

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A regional government or other multi-governmental arrangement is governed by representatives from each of the governments that created the organization, but is not a joint venture because the participants do not retain an ongoing financial interest or responsibility. Based on these criteria, the Franklin-Simpson Industrial Authority, Franklin-Simpson Planning and Zoning Commission, and Franklin-Simpson Planning and Zoning Adjustment Board are considered jointly governed organizations of the City.

Joint Ventures

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility. Based on these criteria, the Franklin-Simpson Parks Board and the Simpson County 911 Advisory Board are considered joint ventures of the City.

B. Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements as follows:

Government-wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the City. Fiduciary activities are excluded from the government-wide statements because they cannot be used to support the City's own programs. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. The Statement of Activities demonstrates the degree to which the direct expenses of a given function or identifiable activity is offset by program revenues. Direct expenses are those that are clearly associated with a specific function or identifiable activity. Expenses that can not be specifically identified to a particular function are charged to funds based on time spent for that function and are included in the functional categories. Program revenues

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

include: (a) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or identifiable activity, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program or identifiable activity. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions.

Fund Financial Statements

The fund financial statements provide information about the City's funds. Separate statements for each fund – governmental and proprietary are presented. The emphasis of fund financial statements is on major governmental and major enterprise funds, each displayed in a separate column. All other governmental and enterprise funds, if any, are aggregated and reported as nonmajor funds.

Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

Governmental Funds

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental fund:

General Fund

The General Fund is the general operating fund of the City. All general tax revenues and other receipts that are not allocated by law, ordinance or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes. The City's four nonmajor special revenue funds account for specific revenues that are restricted to expenditures for operating the Greenlawn-Shady Rest Cemetery (Greenlawn-Shady Rest Cemetery Fund), governmental housing, community and economic development projects (Community Development Fund), public works (Municipal Aid Fund), and economic development activities (Economic Development Revolving Loan Fund).

Permanent Funds

Permanent funds are used to report resources that are legally restricted to allow only the earnings and not the principal to be used for purposes that support the reporting government's programs. The City reports two nonmajor permanent funds (Francis Harris Cemetery Perpetual Fund and Greenlawn-Shady Rest Cemetery Perpetual Fund) which account for assets held in trust for the permanent maintenance and beautification of Greenlawn-Shady Rest cemetery.

Proprietary Funds

Proprietary fund reporting focuses on changes in net assets, financial position and cash flows. Proprietary funds are classified as either enterprise or internal service.

Enterprise Funds

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determinations or revenues earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The City reports the following major enterprise funds:

Water and Wastewater Fund

The Water and Wastewater Fund accounts for the operations of the City's water and wastewater system.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sanitation Fund

The Sanitation Fund accounts for the operations of the City's sanitation system.

Fiber Optic Fund

The Fiber Optic Fund, a nonmajor enterprise fund, accounts for the operations of the City's fiber optic system.

C. Measurement Focus and Basis of Accounting

Government-wide and Proprietary Funds

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and accrual basis of accounting. With this measurement focus, all assets and all liabilities including long-term assets, as well as long-term debt and obligations, are included in Statement of Net Assets. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

In proprietary funds, operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the principal ongoing operations of the fund. All revenues and expenses not meeting this definition are reported as nonoperating items. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Nonexchange transactions, in which the City receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes, grants, entitlements and similar items and donations. Recognition standards are based on the characteristics and classes of nonexchange transactions. Revenues from property taxes are recognized in the period in which the taxes are levied. Franchise fees, licenses and permits, fines and forfeitures are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. Grants, entitlements and donations are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met.

Amounts received before all eligibility requirements have been met are reported as deferred revenues. Grants and similar aid to other organizations are recognized as expenses as soon as recipients have met all eligibility requirements. Amounts paid before all eligibility requirements have been met are reported as prepaid items.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

General capital asset acquisitions are reported as expenditures and proceeds of general long-term debt are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The City considers revenues reported in the governmental funds to be available if they are collectible within 60 days after year end. Principal revenue sources considered susceptible to accrual include taxes, licenses and investment earnings. Other revenues are considered to be measurable and available only when cash is received by the City. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, compensated absences and obligations for worker's compensation, which are recognized as expenditures when payment is due. Pension expenditures are recognized when amounts are due to a plan.

The City reports deferred revenue on its combined balance sheet. Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenue also arises when resources are received by the City before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities and Fund Equity

Cash and Cash Equivalents

The City considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2011, cash equivalents consisted primarily of certificates of deposit and short-term instruments with local financial institutions.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown net of an allowance for uncollectibles. Property taxes attach as an enforceable lien on property as of January 1 each year. Property values are assessed on January 1 of each year, taxes are levied annually by ordinance and are payable on December 31. The City bills and collects its own property taxes. City property tax revenues are recognized when levied to the extent that they are both measurable and available.

Inventories

Inventories are valued at cost, which approximate market, using the first-in/first-out (FIFO) method. The costs of inventory items are recognized as expenditures or expenses when used.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Assets

Certain proceeds of bonds, as well as certain resources set aside for their payment, are classified as restricted assets on the balance sheet since their use is limited by applicable bond indentures. Construction fund accounts are used to report proceeds of general obligation and revenue bonds and notes that are restricted for use in construction and capital acquisitions. Depreciation and Maintenance accounts are the resources set aside to provide reasonable reserves for renewals, replacements, improvements, extensions, extraordinary major repairs and contingencies related to bond obligation projects. Sinking Fund accounts are the resources accumulated for debt service payments.

Investments and Investment Income

Investments include certificates of deposit or government obligations carried at fair value. Investment income includes interest income and the net change for the year in the fair value of investments carried at fair value.

Unbilled Revenue

The City bills customers for water and sewer services after usage based upon meter readings made during the month. The City records a receivable for unbilled revenue at June 30 for usage for which bills have not been sent.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the government-wide financial statements and the fund financial statements for proprietary funds. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

The City maintains a capitalization threshold of \$2,000. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets, excluding infrastructure, are depreciated using the straight-line method over their estimated useful lives as follows:

	<u>Years</u>
Utility plant	25 - 50
Building and improvements	25 - 40
Furniture and equipment	10
Vehicles	4

The City utilizes the modified approach for reporting eligible infrastructure assets. Eligible infrastructure assets are not depreciated, additions and improvements thereto are capitalized and all other outlays made for such assets are expensed in the period incurred only if requirements regarding asset management system and preservation at condition level are met.

Depreciation expense is charged directly to the department/function based on the department that utilizes the related asset.

Compensated Absences

The City grants vacation and sick pay to all full-time employees based on length of service time. The cost of vacation and sick pay is accrued when earned in the government wide and proprietary fund financial statements and reported as accrued liabilities. In fund financial statements, only amounts that are expected to be liquidated with available financial resources are reported as expenditures and included in accrued liabilities.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the columns for governmental activities and business-type activities. These amounts are also reported as liabilities in the fund financial statements for proprietary funds. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Debt issuance costs are reported as deferred charges and amortized over the term of the related debt.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Revenue

The City defers revenue recognition for assets recognized before revenue recognition criteria has been satisfied.

Grants and entitlements received before eligibility requirements are met are deferred. In addition, in governmental fund financial statements, notes and lease receivables at fiscal year-end are recorded as deferred revenue because potential revenue does not meet the “available” criteria for recognition in the current period.

Fund Balance Classification

The City implemented the provisions of GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance—amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance—amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance—amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e., City Commission). To be reported as committed, amounts cannot be used for any other purpose unless the City takes the same highest level action to remove or change the constraint.

CITY OF FRANKLIN
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- Assigned fund balance—amounts the City intends to use for a specific purpose. Intent can be expressed by the City Commission or by an official or body to which the City Commission delegates the authority.
- Unassigned fund balance—amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

The City Commission establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by City Commission through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

The City would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

Net Assets

In the government-wide statements, the difference between the City's total assets and total liabilities represents net assets.

Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets.

Net assets are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or are imposed by law through constitutional provisions or enabling legislation.

E. Revenues, Expenditures and Expenses

Operating Revenues and Expenses

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, non-capital financing, or investing activities.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interfund Activity

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

G. Budgetary Information

Budget Policy

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general, special revenue, and enterprise funds. A budget is not prepared for the City's permanent funds. All annual appropriations lapse at fiscal year end.

Legal Compliance

All agencies of the City submit requests for appropriation to the City manager so that a budget may be prepared. The budget is prepared by fund, function and activity, and includes information on the part year, current year estimates, and requested appropriations for the next fiscal year.

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Before June 1st, the proposed budget is presented to the City Commission for review. The City Commission holds public hearings to obtain taxpayer comments. Prior to July 1, the budget is legally enacted through passage of an ordinance. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Commission. During the year, several supplementary appropriations were necessary.

Excess of Expenditures over Appropriations

The following funds that have budgets adopted annually had excess expenditures over appropriations for the fiscal year ended June 30, 2011:

Sanitation Fund	<u>\$ 37,751</u>
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Fund excess expenditures were funded by available net assets.

NOTE 2. DEPOSITS, INVESTMENTS AND INVESTMENT RETURN

Deposits

Custodial credit risk is the risk that in the event of a bank failure a government's deposits may not be returned to it. The City's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; letters of credit issued by federal home loan banks; bonds, notes, letters of credit or other obligations of the U. S. Treasury, U. S. agencies or instrumentalities or the state of Kentucky; bonds of any city of the first, second, and third classes, county, school district or educational institution of the state of Kentucky; or surety bonds having an aggregate current face value or current quoted market value at least equal to the amount of the deposits in excess of amounts insured by the FDIC.

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 2. DEPOSITS, INVESTMENTS AND INVESTMENT RETURN (Continued)

At June 30, 2011, \$2,184,235 of the City's bank balances of \$3,829,107 were exposed to custodial credit risk as follows, while \$1,644,872 was covered by the FDIC:

Uninsured and collateral held by pledging financial institution	<u>\$ 2,184,235</u>
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Investments

In accordance with Kentucky Revised Statutes (KRS) 66.480, the City may legally invest in obligations of the U. S. Treasury, U. S. agencies and instrumentalities, including obligations subject to repurchase agreements, bankers' acceptances, commercial paper, obligations of the Commonwealth of Kentucky and its agencies and instrumentalities, shares of mutual funds or interest bearing deposits of insured national or state banks.

At June 30, 2011, the City had the following investments and maturities:

Type	Fair Value	Maturities In Years Less than 1
U. S. obligations	<u>\$ 1,843,002</u>	<u>\$ 1,843,002</u>

Interest Rate Risk - The City recognizes that some level of risk is inherent in any investment transaction. Losses may be incurred due to issuer default, market price changes, or closing investments prior to maturity due to unanticipated cash flow needs. While the City has adopted an investment policy that recommends controlling interest rate risk through maturity diversification, the policy states that unless matched to a specific cash flow need, the City's funds should not, in general, be invested in securities maturing more than ten years from the date of purchase.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the City's policy to limit its investments in securities issued by a state or local government or any U. S. agency or instrumentality to the top three ratings issued by nationally recognized statistical rating organizations (NRSROs). At June 30, 2011, investments in U. S. agency obligations not directly guaranteed by the U. S. government were rated AAA by Standard & Poor's.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 2. DEPOSITS, INVESTMENTS AND INVESTMENT RETURN (Continued)

Concentration of Credit Risk - The City's funds must be diversified by security type and institution with the exception of fully insured or fully collateralized investments and except for authorized investment pools, no more than 30% of the City's total investment portfolio shall be invested in a single security type or with a single financial institution. At June 30, 2011, 100% of the City's investments were in U. S. Obligation Mutual Funds.

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

Carrying value:	
Deposits	\$ 3,665,435
Investments	<u>1,843,002</u>
	<u>\$ 5,508,437</u>

Included in the following balance sheet captions:

Government-wide Statement of Net Assets	
Cash and cash equivalents	\$ 1,862,183
Certificates of deposit	434,718
Restricted assets:	
Cash and cash equivalents	1,969,098
Certificates of deposit	<u>1,242,438</u>
Total	<u>\$ 5,508,437</u>

Investment Income

Investment income for the year ended June 30, 2011 consisted of:

Interest and dividend income	<u>\$ 37,561</u>
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CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 3. NOTES RECEIVABLE

Notes receivable at June 30, 2011 consists of the following:

General Fund:

African American Heritage Center, Inc. note receivable, dated April 28, 2009; receivable in annual installments of \$5,000 beginning July 1, 2009; final installment of \$4,000 due on July 1, 2013; non-interest bearing.	\$ 14,000
Franklin-Simpson Industrial Authority promissory note receivable, dated December 3, 2010; receivable in 240 monthly installments of \$33,333, including interest at 7.95%; secured by real estate mortgage.	<u>3,951,206</u>
	<u>\$ 3,965,206</u>

NOTE 4. RESTRICTED ASSETS

The City's restricted assets are as follows as of June 30, 2011:

	Cash	Certificates of Deposit	Interest Receivable	Total
Governmental activities:				
General Fund:				
Retiree Life fund	\$ 18,931	\$ —	\$ —	\$ 18,931
Police fund	16,413	—	—	16,413
City of Franklin 2009 Construction Fund	876,068	—	—	876,068
City of Franklin 2009 Bond Fund	<u>186,810</u>	<u>—</u>	<u>—</u>	<u>186,810</u>
Total General Fund	1,098,222	—	—	1,098,222
Special Revenue Fund				
Cemetery Fund	<u>1,602</u>	<u>—</u>	<u>—</u>	<u>1,602</u>
Total governmental activities	<u>1,099,824</u>	<u>—</u>	<u>—</u>	<u>1,099,824</u>
Business-type activities:				
Enterprise Fund				
Water and Wastewater Fund:				
Customer deposits	89,150	385,563	250	474,963
Debt service reserve	692,655	444,406	250	1,137,311
Depreciation reserve	—	270,790	228	271,018
Maintenance and replacement reserve	—	141,679	—	141,679
Construction Fund	<u>87,469</u>	<u>—</u>	<u>—</u>	<u>87,469</u>
Total business-type activities	<u>869,274</u>	<u>1,242,438</u>	<u>728</u>	<u>2,112,440</u>
Total restricted assets	<u>\$ 1,969,098</u>	<u>\$ 1,242,438</u>	<u>\$ 728</u>	<u>\$ 3,212,264</u>

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011 was as follows:

	Balance <u>June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2011</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 841,978	\$ —	\$ —	\$ 841,978
Streets and sidewalks	<u>10,480,517</u>	<u>385</u>	<u>—</u>	<u>10,480,902</u>
Total capital assets, not being depreciated	<u>11,322,495</u>	<u>385</u>	<u>—</u>	<u>11,322,880</u>
Capital assets being depreciated:				
Buildings and improvements	2,093,660	—	—	2,093,660
Vehicles	1,723,745	144,660	—	1,868,405
Furniture, fixtures and equipment	<u>1,329,660</u>	<u>66,282</u>	<u>—</u>	<u>1,395,942</u>
Total capital assets, being depreciated	<u>5,147,065</u>	<u>210,942</u>	<u>—</u>	<u>5,358,007</u>
Less accumulated depreciation:				
Buildings and improvements	(450,271)	(51,342)	—	(501,613)
Vehicles	(1,354,629)	(90,985)	—	(1,445,614)
Furniture, fixtures and equipment	<u>(981,437)</u>	<u>(93,463)</u>	<u>—</u>	<u>(1,074,900)</u>
Total accumulated depreciation	<u>(2,786,337)</u>	<u>(235,790)</u>	<u>—</u>	<u>(3,022,127)</u>
Total capital assets, being depreciated, net	<u>2,360,728</u>	<u>(24,848)</u>	<u>—</u>	<u>2,335,880</u>
Governmental activities capital assets, net	<u>\$13,683,223</u>	<u>(\$ 24,463)</u>	<u>\$ —</u>	<u>\$13,658,760</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 348,542	\$ 13,320	\$ —	\$ 361,862
Construction in progress	<u>431,996</u>	<u>136,453</u>	<u>(8,920)</u>	<u>559,529</u>
Total capital assets, not being depreciated	<u>780,538</u>	<u>149,773</u>	<u>(8,920)</u>	<u>921,391</u>
Capital assets being depreciated:				
Utility plant	35,100,618	382,356	8,920	35,491,894
Buildings	94,371	—	—	94,371
Furniture and equipment	2,565,069	96,292	—	2,661,361
Vehicles	<u>494,168</u>	<u>—</u>	<u>—</u>	<u>494,168</u>
Total capital assets being depreciated	<u>38,254,226</u>	<u>478,648</u>	<u>8,920</u>	<u>38,741,794</u>
Less accumulated depreciation:				
Utility plant	(15,229,817)	(855,278)	—	(16,085,095)
Buildings	(85,116)	(3,341)	—	(88,457)
Furniture and equipment	(1,690,133)	(160,685)	—	(1,850,818)
Vehicles	<u>(479,962)</u>	<u>(6,245)</u>	<u>—</u>	<u>(486,207)</u>
Total accumulated depreciation	<u>(17,485,028)</u>	<u>(1,025,549)</u>	<u>—</u>	<u>(18,510,577)</u>
Total capital assets, being depreciated, net	<u>20,769,198</u>	<u>(546,901)</u>	<u>8,920</u>	<u>20,231,217</u>
Business-type activities capital assets, net	<u>\$21,549,736</u>	<u>(\$ 397,128)</u>	<u>\$ —</u>	<u>\$21,152,608</u>

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 5. CAPITAL ASSETS (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 39,620
Public safety	147,907
Public works	46,318
Community and cultural	<u>1,945</u>

Total depreciation expense - governmental activities \$ 235,790

Business-type activities:

Water and wastewater	<u>\$ 1,025,552</u>
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NOTE 6. LONG-TERM LIABILITIES

Revenue bonds and other directly related long-term liabilities, which are intended to be paid from proprietary funds, are included in the accounts of such funds. All other long-term indebtedness is accounted for in the Governmental column of the Government-wide Statement of Net Assets.

Changes in long-term liabilities for the year ended June 30, 2011 were as follows:

	<u>Balance</u> <u>June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Amounts Due</u> <u>in One Year</u>
Governmental activities:					
Bonds payable	\$ 2,695,000	\$ —	(\$ 220,000)	\$ 2,475,000	\$ 225,000
Less: unamortized discount	(25,662)	—	1,796	(23,866)	—
Bonds payable, net	2,669,338	—	(218,204)	2,451,134	225,000
Lease purchase agreements	—	—	—	—	—
Notes payable	<u>4,000,000</u>	—	(73,280)	<u>3,926,720</u>	<u>149,233</u>
Total governmental activities	<u>\$ 6,669,338</u>	<u>\$ —</u>	<u>(\$ 291,484)</u>	<u>\$ 6,377,854</u>	<u>\$ 374,233</u>
Business-type activities:					
Revenue bonds	\$ 6,470,000	\$ —	(\$ 740,000)	\$ 5,730,000	\$ 685,000
Less: unamortized discount and deferred amount	(122,832)	—	10,295	(112,537)	—
Bonds payable, net	6,347,168	—	(729,705)	5,617,463	685,000
Lease purchase agreements	195,000	—	(195,000)	—	—
Notes payable	<u>1,146,143</u>	—	(206,641)	<u>939,502</u>	<u>163,698</u>
Total business-type activities	<u>\$ 7,688,311</u>	<u>\$ —</u>	<u>(\$ 1,131,346)</u>	<u>\$ 6,556,965</u>	<u>\$ 848,698</u>
Total governmental and business-type activities	<u>\$14,357,649</u>	<u>\$ —</u>	<u>(\$ 1,422,830)</u>	<u>\$12,934,819</u>	<u>\$ 1,222,931</u>

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 6. LONG-TERM LIABILITIES (Continued)

Governmental activities:

The City enters into general obligation bonds, lease purchase agreements and notes payable to finance the acquisition and construction of various public projects. These long-term liabilities pledge the full faith and credit of the City.

Governmental activities long-term debt of the City consisted of the following at June 30, 2011:

General Obligation Bonds:

\$2,695,000 City of Franklin, Kentucky General Obligation Public Project Refunding and Improvement Bonds, Series 2009, dated October 13, 2009; fully registered bonds in the denomination of \$5,000 or any integral multiple thereof; maturing on October 1 in annual installments of \$160,000 to \$365,000 through 2024; interest at 2% to 4% payable semi-annually on April 1 and October 1; issued to refund five general obligation lease purchase agreements and one general obligation note payable (outstanding principal balances totaling \$1,505,311) and to finance the costs of the acquisition of five police cruisers and a portion of the construction and installation costs of a City fiber optic loop project; secured by the full faith, credit and taxing power of the City.

\$ 2,475,000

Notes payable:

\$4,000,000 JPMorgan Chase Bank (“Chase Bank”) General Obligation Refunding Note, Series 2010, dated June 30, 2010; principal payable in quarterly installments of \$36,174 to \$39,320 beginning January 5, 2011 through October 5, 2013; unpaid principal balance (\$3,544,775) due on January 5, 2014 final maturity date; interest at 2.96% payable in quarterly installments commencing on October 5, 2010; issued to (i) refund the outstanding principal plus interest and prepayment penalty of the City of Franklin General Obligation Note, Series 2010 in the original principal amount of \$4,000,000, dated April 1, 2010 (“Refunded Note”) (ii) fund the construction by the Franklin-Simpson Industrial Authority of an addition to an existing manufacturing facility to be leased to World Color (USA), LLC, not already funded by Refunded Note, and (iii) pay Refunding Note costs of issuance; secured by the full faith, credit and taxing power of the City, assignment to Chase Bank of all of City’s right, title and interest in

CITY OF FRANKLIN, KENTUCKY

**NOTES TO FINANCIAL STATEMENTS
June 30, 2011**

NOTE 6. LONG-TERM LIABILITIES (Continued)

and to (i) the Interlocal Agreement Regarding Industrial Development, dated March 8, 2010, by and among the County of Simpson, Kentucky, the City and the Franklin-Simpson Industrial Authority and (ii) the Assignment of Leases and Rents, dated March 31, 2010 from the Franklin-Simpson Industrial Authority to the City.

\$ 3,926,720

Business-type activities:

Notes payable:

Water and Wastewater Fund:

\$497,979 Kentucky Infrastructure Authority assistance agreement note, dated November 1, 1993; principal and interest at 1.6% payable semi-annually on June 1 and December 1 through December, 2014; proceeds used to finance improvements to wastewater treatment facility.

99,386

\$2,572,240 Kentucky Infrastructure Authority assistance agreement note, dated July 1, 1996; principal and interest at 1.2% payable semi-annually on June 1 and December 1 through June, 2017; proceeds used to finance upgrades to wastewater treatment plant.

840,116

Total notes payable

\$ 939,502

Revenue bonds

Revenue bonds are comprised of various issues for the purpose of acquiring, constructing, equipping, renovating, expanding and refurbishing additions and improvements to the City's system. The City pledges income derived from the acquired or constructed assets to pay debt service.

Water and Wastewater Fund:

Revenue bonds outstanding at June 30, 2011 were as follows:

	<u>Interest Rates</u>	<u>Final Maturity Date</u>	<u>Principal at June 30, 2011</u>
Revenue bonds, Series 2002 (A)	1.25 - 3.25%	December 1, 2011	\$ 455,000
Revenue bonds, Series 2004 (B)	2.00 - 4.75%	December 1, 2033	3,855,000
Revenue bonds, Series 2009 (C)	2.00 - 4.375%	December 1, 2024	<u>1,420,000</u>
			5,730,000
Less: unamortized discounts			<u>(112,537)</u>
Total revenue bonds payable - business-type activities			<u>\$ 5,617,463</u>

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 6. LONG-TERM LIABILITIES (Continued)

- (A) \$4,885,000 City of Franklin Water and Sewer Revenue Refunding Bonds, Series 2002, dated October 1, 2002; fully registered bonds in the denomination of \$5,000 or any integral multiple thereof; maturing on December 1 in annual installments of \$320,000 to \$585,000 through 2011; interest payable semi-annually on June 1 and December 1; issued to advance refund the City's outstanding Water and Sewer Revenue Bonds, Series 1993; secured by water and sewer system revenues.
- (B) \$4,495,000 City of Franklin Water and Sewer Revenue Bonds, Series 2004, dated September 1, 2004; fully registered bonds in the denomination of \$5,000 or any integral multiple thereof; maturing on December 1 in annual installments of \$85,000 to \$265,000 through 2033; interest payable semi-annually on June 1 and December 1; issued to fund construction of new water supply dam; secured by water and sewer system revenues.
- (C) \$1,545,000 City of Franklin, Kentucky Water and Sewer Revenue Refunding and Improvement Bonds, Series 2009, dated October 13, 2009; fully registered bonds in the denomination of \$5,000 or any integral multiple thereof; maturing on December 1 in annual installments of \$125,000 to \$160,000 through 2024; interest payable semi-annually on June 1 and December 1; issued to currently refund certain outstanding lease purchase obligations and finance the construction of improvements to City's water and sewer system; secured by water and sewer system revenues.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 6. LONG-TERM LIABILITIES (Continued)

Annual Debt Service Requirements

The annual requirements to amortize long-term debt outstanding as of June 30, 2011 are as follows:

Year Ending June 30	Governmental Activities		Business-Type Activities		Government-Wide	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 374,233	\$ 186,325	\$ 848,698	\$ 230,658	\$ 1,222,931	\$ 416,983
2013	384,077	176,931	405,780	214,545	789,857	391,476
2014	3,853,410	141,717	417,888	205,164	4,271,298	346,881
2015	240,000	55,500	410,370	195,155	650,370	250,655
2016	245,000	48,945	407,525	184,800	652,525	233,745
2017 - 2021	940,000	135,755	1,359,241	765,844	2,299,241	901,599
2022 - 2026	365,000	29,900	1,015,000	540,512	1,380,000	570,412
2027 - 2031	—	—	1,050,000	307,192	1,050,000	307,192
2032 - 2034	—	—	755,000	54,976	755,000	54,976
	<u>\$ 6,401,720</u>	<u>\$ 775,073</u>	<u>\$ 6,669,502</u>	<u>\$ 2,698,846</u>	<u>\$13,071,222</u>	<u>\$ 3,473,919</u>

Prior Year Defeasance of Debt

In prior years, the City defeased certain water and sewer system revenue bonds by placing new debt proceeds in irrevocable trusts to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. On June 30, 2011, \$500,000 of bonds outstanding are considered defeased.

Industrial Development Project Financing

On April 1, 2010, the City entered into a \$4,000,000 General Obligation Note with Regions Bank to fund the construction by the Franklin-Simpson Industrial Authority ("Industrial Authority") of an addition to an existing manufacturing facility to be leased to World Color (USA), LLC ("World Color"). On June 30, 2010, the Regions Bank note was refunded from JPMorgan Chase Bank General Obligation Refunding Note ("Refunding Note") proceeds. The Refunding Note was issued by the City to reduce future note debt service requirements due to a lower fixed interest rate on Refunding Note.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 6. LONG-TERM LIABILITIES (Continued)

On March 8, 2010, the City, County of Simpson, Kentucky (“County”), and Industrial Authority entered into an Interlocal Agreement Regarding Industrial Development (“Interlocal Agreement”) relating to the World Color industrial development project. Pursuant to Interlocal Agreement, the City and County agreed to pledge, annually, all amounts necessary for project construction and annual debt service requirements. The Industrial Authority, owner of project real property, entered into a lease agreement with World Color for lease of project real property.

In fiscal year 2011, City General Fund expenditures totaling \$3,433,804, were recognized for the Industrial Authority World Color construction project. Total project costs were approximately \$4,000,000 and the Authority delivered a certificate of occupancy issued by the Public Protection Cabinet, Department of Housing, Buildings and Construction to Quad/Graphics, Inc. on December 3, 2010. World Color USA, LLC, a subsidiary of World Color Press, Inc., was acquired by Quad/Graphics, Inc. on July 2, 2010.

On December 3, 2010, the City (“holder”) and Authority (“maker”) entered into a Promissory Note in the principal amount of \$4,000,000 (see Note 3). As of June 30, 2011, the City has recorded a note receivable from the Authority and deferred revenues of \$3,951,206 in the General Fund.

The following is a schedule, by year, of future note payments to be received from the Authority pursuant to promissory note repayment terms:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 89,077	\$ 310,922	\$ 399,999
2013	96,423	303,576	399,999
2014	104,374	295,625	399,999
2015	112,981	287,018	399,999
2016	122,297	277,702	399,999
2017-2021	780,455	1,219,539	1,999,994
2022-2026	1,159,874	840,120	1,999,994
2027-2031	<u>1,485,725</u>	<u>280,936</u>	<u>1,766,661</u>
	<u>\$ 3,951,206</u>	<u>\$ 3,815,438</u>	<u>\$ 7,766,644</u>

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 7. INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payable as of June 30, 2011 are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental Funds:		
General Fund	\$ 427,284	\$ 55,176
Special Revenue Funds:		
Economic Development Revolving Loan Fund	50,993	—
Community Development Fund	<u>—</u>	<u>32,206</u>
Total governmental funds	<u>478,277</u>	<u>87,382</u>
Proprietary Funds:		
Water and Wastewater Fund	—	65,641
Sanitation Fund	33,715	—
Fiber Optic Fund	<u>—</u>	<u>358,969</u>
Total proprietary funds	<u>33,715</u>	<u>424,610</u>
	<u>\$ 511,992</u>	<u>\$ 511,992</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

NOTE 8. INTERFUND TRANSFERS

Interfund transfers for the year ending June 30, 2011 are summarized as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ —	\$ 178,900
Special Revenue Fund		
Greenlawn-Shady Rest Cemetery Fund	183,250	—
Permanent Fund		
Greenlawn-Shady Rest Cemetery Perpetual Fund	<u>—</u>	<u>4,350</u>
Total governmental funds	<u>\$ 183,250</u>	<u>\$ 183,250</u>

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 8. INTERFUND TRANSFERS (Continued)

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 9. RETIREMENT PLAN

Plan Descriptions and Funding Information

County Employees Retirement System

The County Employees Retirement System (CERS) is a cost sharing multiple-employer defined benefit pension plan created by the Kentucky General Assembly, pursuant to the provisions of Kentucky Revised Statute (KRS) 78.520. CERS is administered by the Board of Trustees of Kentucky Retirement Systems (KRS) and covers substantially all regular full-time City employees (members) employed in nonhazardous and hazardous duty positions. The CERS provides for retirement, disability and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost of living adjustments are provided at the discretion of the state legislature. The KRS issues a publicly available annual report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to the Kentucky Retirement Systems, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky, 40601.

Plan members participating in CERS on or before August 31, 2008, with nonhazardous and hazardous duty positions, were required to contribute 5% and 8%, respectively, of their annual creditable compensation. For plan members who began participating in CERS on or after September 1, 2008, contribution rates are 6% and 9%, respectively. Participating employers were required to contribute at an actuarially determined rate. Per KRS Section 61.565(3), normal contributions and past service contribution rates shall be determined by the Board of Trustees on the basis of an annual valuation last proceeding July 1 of a new biennium. The Board may amend contribution rates as of the first day of July of the second year of the biennium, if it is determined on the basis of subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. For the year ended June 30, 2011, participating employers contributed 16.93% (nonhazardous) and 33.25% (hazardous) of each employee's creditable compensation. The actuarially determined rates set by the Board for the year ended June 30, 2011, were 19.81% and 40.06% of creditable compensation. Administrative costs of CERS are financed through employer contributions and investment earnings.

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 9. RETIREMENT PLAN (Continued)

The City's employer contributions to CERS for the years ended June 30, 2011, 2010 and 2009, were equal to the required contributions for each year and are as follows:

<u>Fiscal Year Ending</u>	<u>Non-hazardous Duty Positions Contribution</u>	<u>Percent of Compensation</u>	<u>Hazardous Duty Positions Contribution</u>	<u>Percent of Compensation</u>
2011	\$ 279,934	16.93%	\$ 312,334	33.25%
2010	\$ 275,925	16.16%	\$ 299,245	32.97%
2009	\$ 233,337	13.50%	\$ 264,025	29.50%

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description and Contribution Information

In addition to the pension benefits described above in Note 9, the City maintains an informal retirement plan authorized by the Mayor/Commission. The City does not issue a separate, publicly available OPEB financial report. City employees who retired prior to May 1, 1988, plus employees/spouses who retired after May 1, 1988 but who elected not to participate in the CERS plan (above), are paid a \$100 per month retirement benefit. Twenty retired City employees are currently covered under the plan. Retirement benefits are financed on a pay as you go basis. Payments under the plan totaled \$24,900 for the year ended June 30, 2011.

In addition to providing retirement benefits, the City also provides certain health care and life insurance benefits for these retired employees and their spouses. The cost of the retiree health care and life insurance benefits is borne 100% by the City and is financed on a pay as you go basis. For the year ended June 30, 2011, payments under the plan totaled \$118,138.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The City has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

Annual required contribution	\$ 158,818
Interest on net OPEB obligation	—
Adjustment to annual required contribution	—
Annual OPEB cost (expense)	158,818
Contributions made	(118,138)
Increase in net OPEB obligation	40,680
Net OPEB obligation—beginning of year	—
 Net OPEB obligation—end of year	 \$ 40,680

The City’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2011 were as follows:

Fiscal Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2011	\$158,818	74.4%	\$40,680

Funded Status and Funding Progress

As of June 30, 2011, the actuarial accrued liability for benefits was \$1,595,663, all of which was unfunded.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

CITY OF FRANKLIN, KENTUCKY
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the City and retirees/spouses) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Marital Status - Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality - Life expectancies were based on mortality tables from the National Center for Health Statistics.

Healthcare cost trend rate - The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate of 9.5 percent initially, reduced to an ultimate rate of 5.6 percent after six years, was used.

Health insurance premiums - 2011 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Based on the historical and expected returns of the City's short-term investment portfolio, a discount rate of 4 percent was used. In addition, a simplified version of the unit credit actuarial cost method was used. The unfunded actuarial accrued liability is being amortized over retiree life expectancy not to exceed thirty years. The remaining amortization period at June 30, 2011 was thirty years.

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 11. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time City employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death or unforeseeable emergency.

The plan's investments are held in trust by Public Employee Benefit Service Corporation. Participating employees can contribute to the plan based on either a percentage of compensation or a fixed dollar amount per pay period up to 100% of the participant's total includible compensation or \$16,500 for 2011, whichever is less. During the fiscal year ending June 30, 2011, contributions made on behalf of employees totaled \$44,191.

NOTE 12. SOLID WASTE COLLECTION FRANCHISE AGREEMENTS

Commercial and Residential

On September 30, 2008, the City entered into an exclusive commercial and residential franchise agreement with Waste Management of Kentucky, LLC (franchisee), for the collection of residential and commercial solid waste and wastewater treatment plant waste in the City. Pursuant to franchise agreement, the City shall withhold 10% of the monthly gross receipts (franchise fee) received by the City from utility bill payments attributable to operations conducted by franchisee. In addition, City shall withhold 3% of the monthly gross receipts as a collection fee for its billing and collection services provided. The franchise agreement is for a five year period beginning October 1, 2008 and ending September 30, 2013.

Industrial

In September and October, 2008, the City entered into non-exclusive industrial franchise agreements with franchisees for the collection of industrial solid waste in the City and/or industrial parks located therein. The industrial franchisee must remit to the City monthly 10% of the gross receipts received attributable to its operations in the industrial franchise area. The franchise agreements are for a five year period beginning October 1, 2008 and ending September 30, 2013 and are renewable for three equal terms at the City's discretion.

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 13. INTERLOCAL AGREEMENT FOR FIRE PROTECTION

On December 1, 2006, the City and Simpson County Fiscal Court ("County") entered into an Interlocal Agreement for fire protection and related emergency services. The County presently furnishes basic fire protection services within its boundaries and the City desires to contract for essential fire fighting, protection and emergency services for the City.

At onset of Interlocal Agreement, the City and County fire departments merged into the Franklin-Simpson Fire Rescue operated, managed and administered by the County, with the Simpson County Fire Department Chief being the chief officer of the merged department.

Fire Station and Equipment

Fire fighting equipment owned by the City and County will be used both within the City and County for automatic response and mutual aid on a non-exclusive basis and will remain the property of the contributing entity. The County shall have full use of fire station owned by City and shall maintain the station and grounds. The City shall retain ownership of the fire station and shall provide for major capital repairs of station required during the term of the agreement including extensions. As partial consideration for such, the County agrees to pay City directly, or by offset from amount City shall pay County for the services provided, the amount of \$25,000 per year, payable or offset on a monthly basis, until such time as City retires the existing debt service on the City's fire department building and improvements or until agreement is terminated, whichever is sooner. In addition, City agrees to provide at no charge, water and sewer services at fire department facility.

Personnel

Staffing of Franklin-Simpson Fire Rescue will be determined by the Fire Chief, in consultation with the County Judge Executive and the Mayor and City Manager, subject to approval of the Simpson County Fiscal Court.

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 13. INTERLOCAL AGREEMENT FOR FIRE PROTECTION (Continued)

Financial Contributions

City contributions to the County to the cost and expense of Franklin-Simpson Fire Rescue shall be at amounts per City's adopted budget payable monthly, however, not less than \$186,796 annually, without the prior written agreement of the parties. City contributions shall be increased or decreased annually, based upon change in consumer price index or cost of living increases set by Governor's Office of Local Development or comparable governmental office, effective July 1st of year increase or decrease is adopted by applicable state office, or the percentage increase in Simpson County's fire department budget, whichever is lower.

Financial contributions to the County for implementation of federal, state or local mandatory regulations shall be determined by negotiation. City shall furnish, without charge, quantities of water and use of fire hydrants as County may require or be able to use in its fire fighting operations within the City or County. City shall provide insurance coverage for the fire station facility, however, vehicles owned or operated by County located within the station, shall be insured by the County. County will also provide insurance coverage for property damage, collision and liability insurance coverage for vehicles, personnel and equipment owned by the City and operated by County.

Term

The term of the agreement is for five years, unless extended by mutual agreement or terminated. Twelve months prior to the expiration of the agreement, the County shall provide the City with a proposal for renewal which includes a five year comprehensive plan for services to be provided to City, including costs of providing services. The agreement may be terminated by either party by written notice at least three months prior to intended termination.

NOTE 14. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets, errors and omissions, injuries to employees and natural disasters. The City maintains outside insurance coverage (either commercial or through a pooled insurance program) covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims did not exceed this commercial coverage in the past three fiscal years.

CITY OF FRANKLIN, KENTUCKY

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

NOTE 15. CONTINGENCIES

The City has been named as a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City that resolution of these matters will not have a material adverse effect on the City's financial position. Accordingly, no provision for any liability resulting from such litigation has been made in the accompanying financial statements.

The City participates in numerous State and Federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies; therefore, to the extent that the City complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2011 may be impaired. In the opinion of the City, there are not significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

NOTE 16. SUBSEQUENT EVENTS

Subsequent to June 30, 2011, the City has awarded contracts totaling \$712,268 for the construction/purchase of fiber optic network infrastructure and equipment. Total estimated project costs in fiscal year 2012 are \$2,000,000.

The City is guarantor of financing, along with the County and/or Industrial Authority, for \$1,350,000 for the purchase of approximately 451 acres of real estate located on the east side of I-65, the northeast side of Hwy. 100, said land formerly owned by Garvin Properties.

REQUIRED SUPPLEMENTARY INFORMATION
(Other than Management's Discussion and Analysis)

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE

General Fund

Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues				
Taxes	\$ 772,476	\$ 822,241	\$ 832,732	\$ 10,491
Occupational taxes	1,805,580	1,819,944	1,857,165	37,221
Insurance premium taxes	1,121,660	1,166,003	1,184,939	18,936
Business license taxes	283,956	277,238	297,422	20,184
Franchise taxes	110,307	95,243	96,331	1,088
Intergovernmental	318,996	344,338	319,409	(24,929)
Interfund charges	940,742	891,409	891,409	—
Fines and forfeitures	33,323	30,810	33,335	2,525
Miscellaneous	<u>315,360</u>	<u>329,824</u>	<u>331,215</u>	<u>1,391</u>
Total revenues	<u>5,702,400</u>	<u>5,777,050</u>	<u>5,843,957</u>	<u>66,907</u>
Expenditures				
General government:				
Legislative:				
Personal services	103,704	101,563	100,321	1,242
Contractual services	20,574	15,249	16,911	(1,662)
Materials and supplies	1,555	1,415	996	419
Other	<u>10,340</u>	<u>9,215</u>	<u>9,189</u>	<u>26</u>
Total legislative	<u>136,173</u>	<u>127,442</u>	<u>127,417</u>	<u>25</u>
Administrative:				
Personal services	414,587	408,782	408,784	(2)
Contractual services	4,562	13,129	12,992	137
Materials and supplies	5,952	5,800	3,817	1,983
Other	<u>2,635</u>	<u>3,650</u>	<u>4,225</u>	<u>(575)</u>
Total administrative	<u>427,736</u>	<u>431,361</u>	<u>429,818</u>	<u>1,543</u>
Finance and accounting:				
Personal services	537,428	522,706	511,093	11,613
Contractual services	126,741	118,524	113,240	5,284
Materials and supplies	41,384	57,011	55,301	1,710
Other	<u>6,750</u>	<u>7,672</u>	<u>7,310</u>	<u>362</u>
Total finance and accounting	<u>712,303</u>	<u>705,913</u>	<u>686,944</u>	<u>18,969</u>
Risk management	<u>316,754</u>	<u>325,684</u>	<u>324,651</u>	<u>1,033</u>
Total general government	<u>1,592,966</u>	<u>1,590,400</u>	<u>1,568,830</u>	<u>21,570</u>

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE

General Fund

Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Public safety:				
Police department:				
Administration:				
Personal services	\$ 262,767	\$ 266,323	\$ 264,510	\$ 1,813
Contractual services	24,191	33,548	32,908	640
Materials and supplies	14,964	17,451	15,732	1,719
Other	<u>3,450</u>	<u>3,729</u>	<u>4,564</u>	<u>(835)</u>
Total administration	<u>305,372</u>	<u>321,051</u>	<u>317,714</u>	<u>3,337</u>
Patrol:				
Personal services	1,433,374	1,382,217	1,350,157	32,060
Contractual services	24,372	26,322	23,775	2,547
Materials and supplies	72,909	84,409	80,028	4,381
Other	<u>6,975</u>	<u>7,003</u>	<u>8,941</u>	<u>(1,938)</u>
Total patrol	<u>1,537,630</u>	<u>1,499,951</u>	<u>1,462,901</u>	<u>37,050</u>
Non-sworn personnel:				
Personal services	63,016	65,053	62,659	2,394
Contractual services	45,199	44,157	42,494	1,663
Materials and supplies	530	530	180	350
Other	<u>200</u>	<u>200</u>	<u>166</u>	<u>34</u>
Total non-sworn personnel	<u>108,945</u>	<u>109,940</u>	<u>105,499</u>	<u>4,441</u>
Total police department	<u>1,951,947</u>	<u>1,930,942</u>	<u>1,886,114</u>	<u>44,828</u>
Fire department:				
Inspection and administration:				
Contractual services	<u>650</u>	<u>1,250</u>	<u>1,186</u>	<u>64</u>

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE

General Fund

Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Expenditures (continued)				
Fire department (continued)				
Firefighting:				
Contractual services	\$ 166,195	\$ 166,195	\$ 166,195	\$ —
Total fire department	<u>166,845</u>	<u>167,445</u>	<u>167,381</u>	<u>64</u>
Total public safety	<u>2,118,792</u>	<u>2,098,387</u>	<u>2,053,495</u>	<u>44,892</u>
Public works:				
Personal services	528,082	520,014	515,879	4,135
Contractual services	144,280	139,602	141,605	(2,003)
Materials and supplies	100,571	154,325	136,841	17,484
Other	<u>2,870</u>	<u>3,320</u>	<u>3,398</u>	<u>(78)</u>
Total public works	<u>775,803</u>	<u>817,261</u>	<u>797,723</u>	<u>19,538</u>
Community services:				
Economic development	3,300,616	3,755,210	3,707,080	48,130
Parks and recreation	<u>107,000</u>	<u>137,000</u>	<u>137,000</u>	<u>—</u>
Total community services	<u>3,407,616</u>	<u>3,892,210</u>	<u>3,844,080</u>	<u>48,130</u>
Capital outlay:				
Vehicles	—	145,000	144,661	339
Equipment	—	63,352	55,580	7,772
Plant in service	<u>162,972</u>	<u>25,000</u>	<u>—</u>	<u>25,000</u>
Total capital outlay	<u>162,972</u>	<u>233,352</u>	<u>200,241</u>	<u>33,111</u>
Debt service:				
Principal	293,562	293,280	293,280	—
Interest	193,822	165,437	165,437	—
Administrative fees	<u>500</u>	<u>500</u>	<u>—</u>	<u>500</u>
Total debt service	<u>487,884</u>	<u>459,217</u>	<u>458,717</u>	<u>500</u>
Total expenditures	<u>8,546,033</u>	<u>9,090,827</u>	<u>8,923,086</u>	<u>167,741</u>

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE

General Fund

Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Excess (deficiency) of revenues over (under) expenditures	(\$ 2,843,633)	(\$ 3,313,777)	(\$ 3,079,129)	\$ 234,648
Other financing sources (uses):				
Transfers out:				
Greenlawn-Shady Rest Cemetery Fund	(153,400)	(178,900)	(178,900)	—
Net change in fund balance	(2,997,033)	(3,492,677)	(3,258,029)	234,648
Fund balances, beginning of year	<u>5,987,063</u>	<u>5,987,063</u>	<u>5,987,063</u>	—
Fund balances, end of year	<u>\$ 2,990,030</u>	<u>\$ 2,494,386</u>	<u>\$ 2,729,034</u>	<u>\$ 234,648</u>

CITY OF FRANKLIN, KENTUCKY

**Infrastructure Condition and Maintenance Data
June 30, 2011**

Modified Approach to Infrastructure

The following schedules are presented by the City as supplementary information on infrastructure assets using the modified approach:

	OCI Condition Rating	Square Feet of Road Area					
		2011		2010		2009	
		Square Feet	%	Square Feet	%	Square Feet	%
Acceptable	75 - 100	3,713,204	74.58	3,708,404	74.49	3,986,126	80.54
Marginally deficient	50 - 74	1,101,271	22.12	1,101,271	22.12	862,861	17.43
Moderately deficient	25 - 49	164,140	3.30	164,140	3.30	100,258	2.03
Severely deficient	0 - 24	—	—	4,800	.09	—	—
Total		<u>4,978,615</u>	<u>100.00</u>	<u>4,978,615</u>	<u>100.00</u>	<u>4,949,245</u>	<u>100.00</u>

	Comparison of Estimated-to-Actual Maintenance/Preservation				
	2011	2010	2009	2008	2007
Original estimate	\$ 113,590	\$ 211,961	\$ 199,661	\$ 314,310	\$ 256,852
Actual	\$ 113,168	\$ 202,470	\$ 173,746	\$ 248,637	\$ 258,219

The condition of the City's roads is determined using its Road Management and Inspection Program (RMIP). The road condition is rated from 1 to 100 (OCI), with 100 being new or recently paved.

It is the City's policy to assess the condition of the roads annually for cracks, potholes, misalignment, drainage condition and number of specific safety hazards.

The City has not changed the measurement scale used to assess and report the condition of its roads for the past 10 years.

The City's goal is to have all roads at 90 - 100 OCI rating.

CITY OF FRANKLIN, KENTUCKY

**SCHEDULE OF FUNDING PROGRESS - OPEB
June 30, 2011**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL)— Unit Credit Cost (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a / b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b - a) / c)</u>
6/30/2011	\$ -0-	\$ 1,595,663	\$ 1,595,663	0.0%	N/A	N/A

CITY OF FRANKLIN, KENTUCKY

**SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB
June 30, 2011**

<u>Fiscal Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2011	\$ 158,818	74.4%

SUPPLEMENTARY INFORMATION

Nonmajor Governmental Funds

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are restricted to expenditures for particular purposes.

Greenlawn-Shady Rest Cemetery Fund - This fund is used to account for the activities of the Greenlawn-Shady Rest Cemetery. The cemetery is operated by the City with input from an advisory board.

Community Development Fund - This fund is used to account for the federal community development block grant program and state economic development grant programs restricted for various governmental housing and community development and economic development projects.

Municipal Aid Fund - This fund is used to account for the City's share of liquid fuel tax receipts, mineral and coal severance tax receipts and special municipal road aid bond receipts restricted for public works eligible costs.

Economic Development Revolving Loan Fund - This fund is used to account for economic development incentive loans to local industrial tenants. Loan repayments are restricted to future economic development activities.

Permanent Funds

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

Francis Harris Cemetery Perpetual Care Fund - This fund is used to account for monies held in trust from a memorial from Francis Harris to provide for the future care and maintenance of the Greenlawn Shady Rest Cemetery.

Greenlawn - Shady Rest Cemetery Perpetual Care Fund - This fund is used to account for monies set aside to provide for the future care and maintenance of the Greenlawn Shady Rest Cemetery.

CITY OF FRANKLIN, KENTUCKY

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2011**

	Special Revenue				
	Cemetery	Community Development	Municipal Aid	Economic Development	Total
ASSETS					
Cash and cash equivalents	\$ 21,917	\$ 39,683	\$ 89,173	\$ —	\$ 150,773
Certificates of deposit	—	—	—	—	—
Receivables (net of allowance for uncollectibles):					
Accounts	1,700	—	—	—	1,700
Intergovernmental	—	—	25,070	—	25,070
Interest	—	—	—	—	—
Due from other funds	—	—	—	50,993	50,993
Prepaid items	420	—	—	—	420
Restricted assets:					
Cash and cash equivalents	<u>1,602</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,602</u>
Total assets	<u>\$ 25,639</u>	<u>\$ 39,683</u>	<u>\$ 114,243</u>	<u>\$ 50,993</u>	<u>\$ 230,558</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 10	\$ —	\$ 3,852	\$ —	\$ 3,862
Due to other funds	<u>—</u>	<u>32,206</u>	<u>—</u>	<u>—</u>	<u>32,206</u>
Total liabilities	<u>10</u>	<u>32,206</u>	<u>3,852</u>	<u>—</u>	<u>36,068</u>
Fund balances:					
Nonspendable:					
Prepaid items	420	—	—	—	420
Perpetual care	—	—	—	—	—
Assigned to:					
Other purposes	<u>25,209</u>	<u>7,477</u>	<u>110,391</u>	<u>50,993</u>	<u>194,070</u>
Total fund balances	<u>25,629</u>	<u>7,477</u>	<u>110,391</u>	<u>50,993</u>	<u>194,490</u>
Total liabilities and fund balances	<u>\$ 25,639</u>	<u>\$ 39,683</u>	<u>\$ 114,243</u>	<u>\$ 50,993</u>	<u>\$ 230,558</u>

<u>Permanent Funds</u>	<u>Total Nonmajor Governmental Funds</u>
<u>Cemetery Perpetual</u>	
\$ 38,158	\$ 188,931
434,718	434,718
—	1,700
—	25,070
372	372
—	50,993
—	420
<u>—</u>	<u>1,602</u>
<u>\$ 473,248</u>	<u>\$ 703,806</u>
\$ —	\$ 3,862
<u>—</u>	<u>32,206</u>
<u>—</u>	<u>36,068</u>
—	420
473,248	473,248
<u>—</u>	<u>194,070</u>
<u>473,248</u>	<u>667,738</u>
<u>\$ 473,248</u>	<u>\$ 703,806</u>

CITY OF FRANKLIN, KENTUCKY

**COMBINING BALANCE SHEET
NONMAJOR PERMANENT FUNDS
June 30, 2011**

	Francis Harris Cemetery <u>Perpetual</u>	Greenlawn- Shady Rest Cemetery <u>Perpetual</u>	Total Nonmajor Permanent <u>Funds</u>
ASSETS			
Cash and cash equivalents	\$ 3,509	\$ 34,649	\$ 38,158
Certificates of deposit	50,000	384,718	434,718
Accrued interest receivable	<u>—</u>	<u>372</u>	<u>372</u>
Total assets	<u>\$ 53,509</u>	<u>\$ 419,739</u>	<u>\$ 473,248</u>
FUND BALANCES			
Nonspendable:			
Cemetery maintenance	\$ 53,509	\$ —	\$ 53,509
Perpetual care	<u>—</u>	<u>419,739</u>	<u>419,739</u>
Total fund balances	<u>\$ 53,509</u>	<u>\$ 419,739</u>	<u>\$ 473,248</u>

CITY OF FRANKLIN, KENTUCKY

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2011**

	Special Revenue				
	<u>Cemetery</u>	<u>Community Development</u>	<u>Municipal Aid</u>	<u>Economic Development</u>	<u>Total</u>
Revenues					
Intergovernmental	\$ —	\$ —	\$ 178,062	\$ —	\$ 178,062
Charges for sales and services	69,820	—	—	—	69,820
Contributions	—	—	—	—	—
Investment income	57	—	368	—	425
Miscellaneous	<u>315</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>315</u>
Total revenues	<u>70,192</u>	<u>—</u>	<u>178,430</u>	<u>—</u>	<u>248,622</u>
Expenditures					
Current:					
Public works	—	—	150,864	—	150,864
Community services	241,515	—	—	—	241,515
Capital outlay	<u>2,000</u>	<u>—</u>	<u>9,085</u>	<u>—</u>	<u>11,085</u>
Total expenditures	<u>243,515</u>	<u>—</u>	<u>159,949</u>	<u>—</u>	<u>403,464</u>
Excess (deficiency) of revenues over (under) expenditures	(173,323)	—	18,481	—	(154,842)
Other financing sources (uses):					
Transfers in	183,250	—	—	—	183,250
Transfers out	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total other financing sources (uses)	<u>183,250</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>183,250</u>
Net change in fund balances	9,927	—	18,481	—	28,408
Fund balances, beginning of year	<u>15,702</u>	<u>7,477</u>	<u>91,910</u>	<u>50,993</u>	<u>166,082</u>
Fund balances, end of year	<u>\$ 25,629</u>	<u>\$ 7,477</u>	<u>\$ 110,391</u>	<u>\$ 50,993</u>	<u>\$ 194,490</u>

<u>Permanent Funds</u>	<u>Total Nonmajor Governmental Funds</u>
Cemetery <u>Perpetual</u>	
\$ —	\$ 178,062
—	69,820
11,200	11,200
8,450	8,875
<u>—</u>	<u>315</u>
<u>19,650</u>	<u>268,272</u>
—	150,864
1,388	242,903
<u>—</u>	<u>11,085</u>
<u>1,388</u>	<u>404,852</u>
<u>18,262</u>	(<u>136,580</u>)
—	183,250
(<u>4,350</u>)	(<u>4,350</u>)
(<u>4,350</u>)	<u>178,900</u>
13,912	42,320
<u>459,336</u>	<u>625,418</u>
<u>\$ 473,248</u>	<u>\$ 667,738</u>

CITY OF FRANKLIN, KENTUCKY

**COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR PERMANENT FUNDS
Year Ended June 30, 2011**

	<u>Francis Harris Cemetery Perpetual</u>	<u>Greenlawn- Shady Rest Cemetery Perpetual</u>	<u>Total Nonmajor Permanent Funds</u>
Revenues			
Investment income	\$ 1,541	\$ 6,909	\$ 8,450
Contributions	<u>—</u>	<u>11,200</u>	<u>11,200</u>
Total revenues	1,541	18,109	19,650
Expenditures			
Current:			
Community services	<u>1,388</u>	<u>—</u>	<u>1,388</u>
Excess of revenues over expenditures	153	18,109	18,262
Other financing uses:			
Transfers out	<u>—</u>	<u>(4,350)</u>	<u>(4,350)</u>
Excess of revenues over expenditures and other financing uses	153	13,759	13,912
Fund balance, beginning of year	<u>53,356</u>	<u>405,980</u>	<u>459,336</u>
Fund balance, end of year	<u>\$ 53,509</u>	<u>\$ 419,739</u>	<u>\$ 473,248</u>

CITY OF FRANKLIN, KENTUCKY

**BUDGETARY COMPARISON SCHEDULE
Greenlawn - Shady Rest Cemetery Special Revenue Fund
Year Ended June 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues				
Charges for sales and services	\$ 78,650	\$ 67,405	\$ 69,820	\$ 2,415
Investment income	83	44	57	13
Miscellaneous	<u>855</u>	<u>105</u>	<u>315</u>	<u>210</u>
Total revenues	<u>79,588</u>	<u>67,554</u>	<u>70,192</u>	<u>2,638</u>
Expenditures				
Current:				
Community services:				
Personal services	7,566	7,541	7,140	401
Contractual services	177,440	177,526	177,656	(130)
Materials and supplies	850	850	609	241
Administrative overhead	50,000	50,000	50,000	—
Other	5,800	12,510	6,110	6,400
Capital outlay				
Community services	<u>—</u>	<u>2,000</u>	<u>2,000</u>	<u>—</u>
Total expenditures	<u>241,656</u>	<u>250,427</u>	<u>243,515</u>	<u>6,912</u>
Excess (deficiency) of revenues over (under) expenditures	(162,068)	(182,873)	(173,323)	9,550
Other financing sources:				
Transfers in	<u>162,100</u>	<u>183,250</u>	<u>183,250</u>	<u>—</u>
Excess of revenues and other financing sources over expenditures	32	377	9,927	9,550
Fund balance, beginning of year	<u>15,702</u>	<u>15,702</u>	<u>15,702</u>	<u>—</u>
Fund balance, end of year	<u>\$ 15,734</u>	<u>\$ 16,079</u>	<u>\$ 25,629</u>	<u>\$ 9,550</u>

CITY OF FRANKLIN, KENTUCKY

**BUDGETARY COMPARISON SCHEDULE
Municipal Aid Special Revenue Fund
Year Ended June 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Revenues				
Intergovernmental:				
Liquid fuel tax	\$ 147,022	\$ 155,545	\$ 168,156	\$ 12,611
Mineral and coal severance tax	5,403	7,073	9,906	2,833
Investment income	<u>613</u>	<u>397</u>	<u>368</u>	<u>(29)</u>
Total revenues	<u>153,038</u>	<u>163,015</u>	<u>178,430</u>	<u>15,415</u>
Expenditures				
Current:				
Public works	144,000	150,859	150,864	(5)
Capital outlay:				
Public works	<u>9,000</u>	<u>26,560</u>	<u>9,085</u>	<u>17,475</u>
Total expenditures	<u>153,000</u>	<u>177,419</u>	<u>159,949</u>	<u>17,470</u>
Excess (deficiency) of revenues over(under) expenditures	38	(14,404)	18,481	32,885
Fund balance, beginning of year	<u>91,910</u>	<u>91,910</u>	<u>91,910</u>	<u>—</u>
Fund balance, end of year	<u>\$ 91,948</u>	<u>\$ 77,506</u>	<u>\$ 110,391</u>	<u>\$ 32,885</u>

PROPRIETARY FUNDS

Enterprise Funds

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the City's management is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or where the City's management has decided that periodic determination of net income is appropriate for accountability purposes.

Water and Wastewater Fund - This fund is used to account for the activities of the Water and Wastewater operations.

Sanitation Fund - This fund is used to account for the activities of the City's sanitation and landfill operations.

Fiber Optic Fund - This fund is used to account for the activities of the City's fiber optic operations.

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE

**Water and Wastewater Fund
Year Ended June 30, 2011**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Operating revenues:				
Charges for sales and services:				
Water division	\$ 2,518,448	\$ 2,513,827	\$ 2,499,426	(\$ 14,401)
Wastewater division	<u>2,102,263</u>	<u>2,092,930</u>	<u>2,086,655</u>	<u>(6,275)</u>
Total operating revenues	<u>4,620,711</u>	<u>4,606,757</u>	<u>4,586,081</u>	<u>(20,676)</u>
Nonoperating revenues:				
Investment income	28,285	19,525	23,718	4,193
Grant revenue	—	390,903	390,903	—
Miscellaneous	<u>14,016</u>	<u>22,495</u>	<u>23,734</u>	<u>1,239</u>
Total nonoperating revenues	<u>42,301</u>	<u>432,923</u>	<u>438,355</u>	<u>5,432</u>
Total revenues	<u>4,663,012</u>	<u>5,039,680</u>	<u>5,024,436</u>	<u>(15,244)</u>
Expenditures				
Water division:				
Production:				
Personal services	246,146	254,952	252,129	2,823
Contractual services	186,197	221,950	204,768	17,182
Materials and supplies	195,549	171,968	162,769	9,199
Other	<u>4,225</u>	<u>4,725</u>	<u>3,805</u>	<u>920</u>
Total water production	<u>632,117</u>	<u>653,595</u>	<u>623,471</u>	<u>30,124</u>
Distribution:				
Personal services	363,016	340,194	329,149	11,045
Contractual services	43,970	49,754	35,814	13,940
Materials and supplies	206,650	185,150	97,814	87,336
Other	<u>10,750</u>	<u>9,500</u>	<u>6,898</u>	<u>2,602</u>
Total water distribution	<u>624,386</u>	<u>584,598</u>	<u>469,675</u>	<u>114,923</u>

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE

Water and Wastewater Fund

Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Expenditures (continued)				
Meter reading and maintenance:				
Personal services	\$ 62,855	\$ 61,587	\$ 61,180	\$ 407
Contractual services	6,440	6,828	6,680	148
Materials and supplies	78,500	99,899	98,681	1,218
Other	<u>730</u>	<u>730</u>	<u>122</u>	<u>608</u>
 Total water meter reading and maintenance	 <u>148,525</u>	 <u>169,044</u>	 <u>166,663</u>	 <u>2,381</u>
 Total water division	 <u>1,405,028</u>	 <u>1,407,237</u>	 <u>1,259,809</u>	 <u>147,428</u>
Wastewater division:				
Treatment:				
Personal services	317,375	306,854	326,307	(19,453)
Contractual services	201,646	229,557	223,842	5,715
Materials and supplies	91,135	91,513	70,316	21,197
Other	<u>6,550</u>	<u>8,834</u>	<u>7,386</u>	<u>1,448</u>
 Total wastewater treatment	 <u>616,706</u>	 <u>636,758</u>	 <u>627,851</u>	 <u>8,907</u>
Collection and rehabilitation:				
Personal services	222,750	222,316	216,197	6,119
Contractual services	76,650	73,300	62,347	10,953
Materials and supplies	95,500	103,815	80,851	22,964
Other	<u>6,900</u>	<u>4,200</u>	<u>3,301</u>	<u>899</u>
 Total wastewater collection and rehabilitation	 <u>401,800</u>	 <u>403,631</u>	 <u>362,696</u>	 <u>40,935</u>
 Total wastewater division	 <u>1,018,506</u>	 <u>1,040,389</u>	 <u>990,547</u>	 <u>49,842</u>
 Administrative overhead	 <u>548,410</u>	 <u>548,410</u>	 <u>548,410</u>	 <u>—</u>
Debt service:				
Principal	1,141,642	1,141,642	1,141,642	—
Interest	279,251	280,007	277,240	2,767
Administrative fees	<u>9,227</u>	<u>2,672</u>	<u>2,509</u>	<u>163</u>
 Total debt service	 <u>1,430,120</u>	 <u>1,424,321</u>	 <u>1,421,391</u>	 <u>2,930</u>
 Capital outlays	 <u>251,000</u>	 <u>683,456</u>	 <u>504,676</u>	 <u>178,780</u>
 Total expenditures	 <u>4,653,064</u>	 <u>5,103,813</u>	 <u>4,724,833</u>	 <u>378,980</u>

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE

Water and Wastewater Fund

Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Excess of revenues over expenditures	\$ <u>9,948</u>	(\$ <u>64,133</u>)	\$ 299,603	\$ <u>363,736</u>
Add:				
Principal payments			1,141,641	
Capital outlays			504,676	
Less:				
Depreciation expense			(1,025,552)	
Amortization expense			<u>(18,489)</u>	
Change in net assets			901,879	
Net assets, beginning of year			<u>15,761,984</u>	
Net assets, end of year			\$ <u>16,663,863</u>	

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE

Sanitation Fund

Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Operating revenues:				
Charges for services:				
Hand pick-up	\$ 596,589	\$ 584,248	\$ 604,558	\$ 20,310
Commercial dumpster	322,388	324,716	328,546	3,830
Collection fees	27,571	27,439	28,137	698
Fines and forfeitures	4,017	26,444	27,839	1,395
Franchise fee	<u>131,096</u>	<u>145,232</u>	<u>145,713</u>	<u>481</u>
Total operating revenues	1,081,661	1,108,079	1,134,793	26,714
Nonoperating revenues:				
Investment income	<u>147</u>	<u>729</u>	<u>737</u>	<u>8</u>
Total revenues	<u>1,081,808</u>	<u>1,108,808</u>	<u>1,135,530</u>	<u>26,722</u>
Expenditures				
Sanitation operations:				
Personal services	11,066	11,047	25,547	(14,500)
Contractual services	918,995	914,629	937,880	(23,251)
Administrative overhead	<u>150,000</u>	<u>182,500</u>	<u>182,500</u>	<u>—</u>
Total expenditures	<u>1,080,061</u>	<u>1,108,176</u>	<u>1,145,927</u>	<u>(37,751)</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 1,747</u>	<u>\$ 632</u>	(10,397)	<u>(\$ 11,029)</u>
Net assets, beginning of year			<u>55,975</u>	
Net assets, end of year			<u>\$ 45,578</u>	

CITY OF FRANKLIN, KENTUCKY

BUDGETARY COMPARISON SCHEDULE

Fiber Optic Fund

Year Ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Operating revenues:				
Charges for services	\$ 43,200	\$ —	\$ —	\$ —
Miscellaneous	<u>109,195</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total operating revenues	152,395	—	—	—
Nonoperating revenues:				
Grant revenue	<u>1,000,000</u>	<u>12,559</u>	<u>11,282</u>	<u>(1,277)</u>
Total revenues	<u>1,152,395</u>	<u>12,559</u>	<u>11,282</u>	<u>(1,277)</u>
Expenditures				
Personal services	69,540	2,485	—	2,485
Contractual services	77,670	564	1,321	(757)
Materials and supplies	4,050	296	296	—
Other	3,500	—	—	—
Administrative overhead	103,330	—	—	—
Capital outlay	<u>1,711,802</u>	<u>178,404</u>	<u>123,748</u>	<u>54,656</u>
Total expenditures	<u>1,969,892</u>	<u>181,749</u>	<u>125,365</u>	<u>56,384</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(\$ 817,497)</u>	<u>(\$ 169,190)</u>	<u>(114,083)</u>	<u>\$ 55,107</u>
Add:				
Capital outlays			<u>123,748</u>	
Change in net assets			9,665	
Net assets, beginning of year			<u>40,251</u>	
Net assets, end of year			<u>\$ 49,916</u>	